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Direct Response Radio: *Strategy • Media • Creative*

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Radio Advertising Costs – How Much Should I Budget?

Perhaps the most common set of questions we frequently hear pertain to radio advertising costs. How much should I budget for testing direct response radio advertising? And, with that budget amount, how many radio stations would air my radio ad? How many radio spots would air?

These are understandable questions, but we feel there's a better way to think about costs and direct response radio advertising. The purpose of this article is to provide the not just the answer to these questions but also the background information necessary to understand how to best think about direct response radio advertising costs.

In general, it's helpful to think about radio advertising costs by breaking it out into two parts.

1. Advertising Strategy and Creative Development

The first part is the advertising strategy and creative development of your radio ads. These get lumped together because to charge off creating a radio ad before conducting a basic strategy exercise is a big mistake and a total waste of time and money. That's the fire-aim-ready approach.

Thanks to technological advances, the costs of radio ad development have come down dramatically over the last decade. A good ballpark range for a single-voice radio ad is \$850-\$900. This includes creative strategy, copywriting and production. For additional voices,

figure in another \$150-\$200. It's not necessary to ever pay more than \$1,000 for a radio ad unless you have an unusually complex production requirement, like many different voices or special studio requirements – or, if a lot of copy changes are made and significant re-voicing and re-editing is required.

Budget the cost to create two spots to test. The one that performs the best becomes the control ad. At this point refine both the ad and the media elements to maximize the performance of the ad. If neither of the first two ads performs above your break-even level, more tests of copy and the presentation of different appeals are needed to produce that outcome.

Nothing is free. If someone tells you ad development is free, you're either a) paying for it somewhere else, or b) not getting the best possible copy and production.

TIP: Beware of companies who say their ad development is free. Nothing is free. If someone tells you ad development is free, you're either a) paying for it somewhere else, or b) not getting the best possible copy and production.

You want the proper incentives in place to align your interests with your agency's interests so you get the best creative strategy, the best copywriting,

and the right voices and production.

This is not the place to pinch pennies. If you have budget constraints, discuss them with your agency because if the strategy and creative process fails, the rest of the campaign will fail.

2. Media Planning & Media Buying

The second component of radio costs is the media budget. The media budget has two phases. Phase one is the weekly testing budget spent early in the campaign which focuses in on the strategy, creative and media variables that result in maximum profitability. During testing, the campaign may hover around break-even and not drive a profit. When we do a test, we establish a weekly test budget over a four week period. Typically, the budget is around \$6,000 per week for the first week, and includes testing of two ads, each with half of the total budget. The second week is typically a zero or very low spend. Here we take time to thoroughly analyze the results from week one to identify the variables we'll test next. In weeks three and four, we continue testing with a budget in the \$3,000 to \$5,000 range.

This testing period isn't all just cost. Usually the media spend during the testing period will generate calls and revenues.

The second phase for the media budget is the roll out, when you exceed

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your break even return on advertising. When you're operating at greater than break even profitability, you'll want your budget to grow because the more you spend on media, the greater your profit. That's the velocity effect of direct response radio advertising.

Of course, there are logistical issues (inventory, manufacturing, fulfillment, etc.) that need to be ready for the increased volume. In the roll out phase, grow your budget at a rate that takes into account:

- a) your business' readiness for growth
- b) the building of a customized pool of profitable media for your campaign

Number of Stations & Radio Ad Frequency

Now that you have a basic understanding of how to think about radio advertising costs, let's address the other two common sub-questions we get about radio advertising costs. "With my budget, how many radio stations will my ad run?" and "How many times will my spot air for that budget?"

The answer to both of these questions is the same: It depends.

Generally, between six and ten radio stations will air the ads in the initial test budget. But, specifics get determined based on:

- a) client preferences for speed of learning and client business volume constraints
- b) the testing design and media plan – which are both determined in reviewing the product, target customers, and other information provided to us in a creative brief document

Keep in mind that the cost of being on a station is a function of that station's audience size. Stations with larger audiences will cost more than stations with smaller audiences. We will test the number of stations we feel is necessary to answer the questions that yield the most information about what will work and what won't for your campaign.

As far as the number of airings, direct response radio advertising has a range of optimum number of airings needed to deliver the highest return on advertising dollar. The key is to start within that optimum range, and then customize it to each campaign, format, and station

using testing methodology. We've tested a large number of variables to determine the optimum schedule range – in terms of spot frequency as well as the distribution of spots across days of the week and dayparts. A good agency will have conducted similar data-driven research, and that's part of what you're buying when you hire an agency – their ability to arrive at the optimum schedule for you.

The Bottom Line

With all of this as background information, how much does it cost to advertise on radio? You should budget around \$1,750 for creative development plus \$3,000 to \$6,000 per week over a 3 week test period for the initial media test. If the test media delivers revenues at or above your break-even profitability level, then you've gained significant learning at essentially zero cost. If the test media delivers revenues at just 75% of your break even profitability level, then for less than \$6,000 you still gain significant learning about whether direct response radio is a profitable venture for your business – and, if so, how you'll go about building a radio advertising campaign that takes full advantage of the opportunity.



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